



TEXAS PENSION
REVIEW BOARD

**Board Meeting Minutes
June 30, 2020**

1. Meeting called to order (0:01)

The second meeting of 2020 of the Pension Review Board (PRB) began on Tuesday, June 30, 2020, at 10:00 AM by teleconference.

2. Roll call of Board members (0:37)

Board members present:

Chair Stephanie Leibe	Keith Brainard
Marcia Dush	Rossy Farina-Strauss
Shari Shivers	Christopher Zook
Ernest Richards	

A quorum being present, the meeting was called to order by Chair Leibe.

3. Roll call of members of the public (1:34)

Pre-registered members of the public present:

David Stacy

4. Board administrative Matters – Chair Leibe (2:09)

A. February 6, 2020 meeting minutes (2:12)

Chair Leibe entertained a motion to suspend the reading of the minutes of the February 6, 2020 meeting and approve them as circulated.

The motion was made by Mr. Zook and seconded by Ms. Dush.

The motion passed unanimously.

B. Consider excusing the absence of Board members from the February 6, 2020 Board meeting (3:13)

Chair Leibe entertained a motion to excuse the absence of Ms. Shivers from the February 6, 2020 Board meeting.

The motion was made by Ms. Dush and seconded by Mr. Richards.

The motion passed unanimously.

5. Actuarial Committee Matters – Keith Brainard (4:16)

A. Actuarial valuation report (4:30)

Kenny Herbold provided a summary of the Actuarial Valuation Report which included 15 new valuations. He stated plan assets were generally increasing but valuations did not

reflect recent market impacts of COVID-19. Mr. Herbold noted valuations also did not reflect recent decisions made by Texas ERS, Austin ERS, and Dallas Police and Fire Pension to lower their discount rates.

Marcia Dush noted the valuations received so far had an actuarial value of assets greater than market value, totaling approximately seven billion dollars of deferred losses that had not yet been reflected in the actuarial value of assets.

Shari Shivers asked if the difference between the market value of assets and the actuarial value of assets (AVA) was attributable to the use of five-year smoothing. Ms. Dush confirmed that was correct. Mr. Herbold indicated the values are primarily based on fiscal year-end 2018 information, which was a poor performing year for many plans, and did not reflect positive returns for fiscal year-end 2019. He stated it would likely take a few years for the effects of COVID-19 to be reflected in actuarial valuations due to the nature of delayed reporting. Mr. Herbold stated the unfunded liabilities should continue to grow because the liabilities will grow faster than the AVA as the deferred losses are recognized.

Mr. Herbold explained changes to the supplemental and contribution report: staff added expected depletion date and percentage of recommended contribution columns to the reports, respectively.

Ms. Dush commented Texas pension plans may benefit from incorporating alternate tools for reaching 30-year amortizations. Ms. Dush was interested in seeing additional information when determining recommended contribution calculations. She stated, when targeting a contribution rate, she preferred a calculation that considered a sponsor's normal cost, interest on unfunded liabilities and 1/30th of the unfunded liabilities, rather than amortization based on percentage of pay at the 30-year mark.

Mr. Herbold noted the contribution type in the current report did not reflect recent changes adopted in funding policies.

B. Systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance (26:48)

Mr. Herbold noted the PRB had been notified that University Park Firemen's Relief & Retirement Fund had switched to a closed 30-year employer actuarially defined contribution (ADC). He provided a summary on the progress of the remaining six plans subject to the FSRP requirement.

Mr. Brainard noted Midland Firemen's Relief & Retirement Fund's (Midland Fire) FSRP was originally triggered in 2015.

Ms. Dush asked Mr. Herbold when a plan's FSRP was due to the PRB and when plans were required to meet the 40-year amortization requirement. Mr. Herbold explained the FSRP trigger and the deadlines that applied once the trigger was met.

Ms. Dush asked about the Board's role in responsibility for plans that are late in submitting FSRPs. Mr. Brainard noted the agenda provided an upcoming section to review the FSRP's statutes and any recommended changes the Board may have.

Anumeha Kumar recommended the Board invite Midland Fire, Orange Firemen's Relief

and Retirement Fund, and Irving Firemen's Relief & Retirement Fund, along with their plan sponsors, to provide an update on their FSRP progress.

Mr. Brainard entertained a motion to invite the plans to update the Actuarial committee on their FSRP progress during the August 6, 2020 meeting.

The motion was made by Ms. Dush and seconded by Mr. Richards.

The motion passed unanimously.

Ms. Shivers commented current statute provided no enforcement authority to the PRB.

Mr. Herbold concluded his presentation, and summarized plans at risk of FSRP formulation, those previously subject to FSRPs, as well as systems that previously completed FSRP requirements.

C. Funding policies received as required by Government Code Section 802.2011 (SB 2224) (53:00)

Ashley Rendon stated 95 of 100 plans had submitted funding policies and noted the PRB had received funding policies from 55 non-ADC plans. One non-ADC system developed the funding policy jointly with its sponsor, and at least three other systems worked with the sponsor to include risk-sharing elements supported by both parties.

Ms. Rendon stated 11 of 55 non-ADC plans used risk-sharing elements within their funding policies and 13 of 55 plans utilized parameters on contributions and/or benefit changes.

Ms. Rendon noted 52 of 55 funding policies from non-ADC plans utilized ADC benchmarking. Three of 55 non-ADC plans used alternative approaches from utilizing an ADC benchmark.

Ms. Dush and Mr. Brainard discussed open or rolling ADC benchmarks, concerned that they did not believe that these met the statutory requirements that required a plan to reach 100% or greater funding.

Ms. Rendon stated that staff communicated with plans that used rolling ADC benchmarks prior to the May 2020 Actuarial committee meeting. Kenny Herbold added that, at the request of the Actuarial committee, staff had sent letters to all plans with rolling ADC benchmarks asking how their funding policies met the statutory requirement to reach 100% or greater funding.

Ms. Dush asked whether plans had provided a formal response to the letters, and what the next steps would be.

Ms. Kumar stated the Board had the option to request a formal response from those plans.

Mr. Brainard asked staff to request plans using rolling ADC benchmarks to submit a formal response or revised funding policy by the August 6, 2020 Actuarial committee meeting.

Christopher Zook questioned if a plan was required to make changes to its funding policy once staff notified it of the committee's position.

Mr. Brainard confirmed the PRB lacked authority to require a plan and its sponsor to take any action to bring its funding policy to target 100% or greater funding. He noted staff was directed at the last Actuarial committee meeting to develop legislative recommendations to require plan sponsors to participate in the plan's funding policy development.

Ms. Shivers suggested providing the PRB with enforcement power as part of the staff's recommendation to Legislature. Mr. Brainard requested Ms. Shivers work with staff on recommendations that can be shared with the Actuarial committee.

Ms. Kumar noted systems had raised concerns due to an inability to change any benefit or contribution amounts without an approval vote of the system's members.

D. Review of Funding Policy requirement under Section 802.2011 and Funding Soundness Restoration Plan (FSRP) requirements under section 802.2015 and 802.2016 of the Government Code (1:15:34)

Michelle Downie Kranes provided a summary of discussion from the previous Actuarial committee meeting. She stated two requests were made of staff at the committee meeting, the first of which requested staff to prepare a report on issues concerning the implementation of the FSRP statute, including the amortization period threshold. The second requested that staff recommend a shortened time period from the first problematic valuation to when the FSRP requirement was triggered.

Ms. Downie Kranes summarized 10 potential policy issues identified by staff related to the funding policy and FSRP requirements. She highlighted the issue of plans submitting perpetual revised FSRPs, which meant a plan may never achieve the minimum amortization period threshold.

Ms. Downie Kranes noted that the Texas Association of Public Employee Retirement Systems (TEXPERS) submitted a letter that offered its concerns on the FSRP threshold and the possible impact on its member plans.

Mr. Brainard encouraged all meeting participants to read the Funding Policy and Funding Soundness Restoration Plan Requirements –Issue Document and the letter from TEXPERS included in the packet. He stated the documents would allow them to begin to address issues with the FSRP.

Ms. Shivers asked if any of the outlined issues were addressed by the House or Senate's interim charges. Ms. Downie Kranes responded she did not believe they were.

Mr. Brainard entertained a motion to direct staff to work with the Actuarial committee to develop legislative recommendations for improvements to the funding policy and FSRP statutory requirements for the Board to consider at its November 12, 2020 meeting.

The motion was made by Ms. Dush and seconded by Mr. Richards.

The motion passed unanimously.

E. Actuarial Standard of Practice (ASOP) 4 Second Exposure Draft (21:13)

Mr. Herbold explained ASOP 4 as the primary ASOP governing how plan liabilities were

measured and stated comments from constituents regarding ASOP 4's Second Exposure Draft were due by the end of July, after which the Actuarial Standards Board would consider any recommended changes. He noted that the ASOP defined "reasonable actuarially determined contribution" (ADC), as well as a reasonable amortization method. Each amortization base must have payments that fully amortize the amortization base within a reasonable time period or reduce the outstanding balance by a reasonable amount each year. Mr. Herbold stated there was an additional requirement to identify whether negative amortization occurred and when it would be resolved.

Mr. Herbold stated he expected plans using 30-year rolling amortization periods would no longer be considered a reasonable actuarially determined amortization method. He stated there was also a potential requirement to calculate a plan's depletion date on the funding valuation.

F. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code (1:29:36)

Bryan Burnham updated the Board on six plans that were non-compliant as of June 22, 2020. He noted one plan listed had become compliant and two plans had partially submitted the necessary reports requirements for compliance. Mr. Burnham noted two plans were now non-compliant for over sixty days, with the remaining plan non-compliant for less than 60 days.

6. Update on the joint meeting of the Investment and Actuarial committees (1:32:40)

Robert Munter provided a summary of the April 30, 2020 joint Investment and Actuarial committee meeting. He stated the investment portion covered both overall and expected market impacts of COVID-19 on Texas pension plans. Mr. Munter explained markets had rebounded but remained volatile due to the difficult nature of reopening the economy. The volatility of market was expected to continue through the remainder of the year.

Mr. Munter stated the actuarial portion of staff's presentation covered two new metrics meant to improve the PRB's monitoring of plans for fiscal soundness. The first metric was liquidity ratio, which measured a plan's ability to pay benefit payments without having to rely on investment income or having to sell assets. The second was asset to benefit payment ratio, which measured how many years of benefit payments can be made, assuming no change in benefit payments and no new contributions or investment income.

Mr. Munter added staff was instructed to contact plans who were in the bottom quartile for the new metrics. He reported all plans fitting that criteria continued to work with the PRB.

Ms. Dush asked if any plans were experiencing issues with their liquidity ratio that would affect pension payments. Mr. Herbold responded none of the above plans were anticipated to run out of assets for pension payments in the near future.

7. Investment committee matters- Christopher Zook (1:36:03)

A. Investment Practices and Performance Evaluations as required by Government Code Section 802.109 (1:36:32)

Robert Munter reminded the Board that Senate Bill 322 required plans with assets greater than \$30 million to submit an evaluation to the PRB.

Mr. Munter stated the PRB received 50 of the 65 expected evaluations as of the June deadline. He noted staff communicated with the remaining 15 and found 11 plans were in the process of submitting evaluations, two were unsure of their evaluation's status and two had not yet responded. Mr. Munter stated a status update on the outstanding 15 plans would be provided at the November Board meeting.

Mr. Zook requested any plans attending the Board meeting that have yet to submit their evaluations to please do so as soon as they were able.

8. Education and Research Committee Matters- Marcia Dush (1:39:17)

A. MET compliance reporting (1:39:30)

Benjamin Warden reminded the Board of the newly adopted rule that changed MET reporting dates from twice annually to once annually, due the first of September. Owing to this change, he stated the MET compliance report would be included in board meeting packets annually at the first Board meeting after the September deadline or upon request by the Board.

9. 2020-2021 Legislative Appropriations Request (1:40:51)

Anumeha Kumar clarified the agenda item should be amended to 2022-2023 Legislative Appropriation Request. She stated the Legislative Appropriations Request (LAR) deadline was before the November Board meeting, but the agency had not yet received LAR instructions. She noted all agencies were required to provide a five percent reduction in their budget.

Ms. Kumar explained that staff had identified two priorities for the request. First, she reminded the Board of the appropriated funds from the 86th Legislature, which through a contingency rider for SB 322, added a 13th full-time employee to the agency. However, due to 90% of the agency's budget going toward staff salaries, the 5% reduction in the agency's budget required no longer utilizing those appropriations; instead they will be returned to the Legislature. Ms. Kumar stated the staff planned to request a restoration of those funds in the 2022-2023 LAR.

The second request pertained to updating the agency's internal database, which had become antiquated. Ms. Kumar stated the anticipated cost was under 5% of the total agency 2022-2023 budget.

Chair Leibe entertained a motion to instruct staff to work with both Chair and Vice Chair to finalize the agency's LAR.

The motion was made by Ms. Dush and seconded by Mr. Richards.

The motion passed unanimously.

10. Executive Director's Report – Anumeha Kumar (1:46:02)

A. 2021 – 2025 Strategic Plan (1:46:10)

Ms. Kumar presented the Strategic Plan, which was a long-term assessment of the agency's goals, strategies to achieve those goals, and overall budget structure. She explained this document helps the agency communicate its goals to the stakeholders. The plan had been submitted to the Governor's Office and Legislative Budget Board.

B. 2020 Customer Service Survey (1:47:40)

Ms. Kumar reminded the Board this survey was a part of the strategic planning process

that took place biennial. She noted the increased participation in the survey, with 93 percent satisfaction with customer service provided by staff. Ms. Kumar stated the survey showed the agency's complaint-handling process needed to be refined. Comments of note from the survey included requests for online continuing education courses and PRB website improvement.

C. Staff update (1:52:04)

Ms. Kumar introduced the newest PRB staff member, Joshua White, Research Specialist. She stated the agency now had 12 full-time staff members, although 13 had been budgeted. She noted the 13th position would remain unfilled throughout the hiring freeze established by the Governor's Office and until the funds were re-appropriated to the agency to do so.

D. Updated Fiscal Year 2020 Operating Budget (1:54:00)

Ms. Kumar stated that the agency was well within appropriated amounts for the year. She noted the agency had funds to lapse due to the hiring freeze. The lapsed funds would be returned to the Legislature.

E. Approval of Fiscal Year 2021 Operating Budget (1:54:27)

Ms. Kumar presented fiscal year 2021 Operating Budget to be approved by the Board.

Chair Leibe entertained a motion to approve the fiscal year 2021 Operating Budget as presented.

The motion was made by Mr. Zook and seconded by Mr. Brainard.

Motion approved unanimously.

11. Call for future PRB agenda items (1:55:43)

There was no discussion on this item.

12. Date and location of future PRB meetings – including November 12, 2020 (1:56:05)

Chair Leibe stated that the upcoming meeting of the full Board would be held November 12, 2020. She noted the Investment committee would meet on July 28, 2020, the Actuarial committee on August 6, 2020, and each committee would have separate meetings on September 29, 2020.

13. Invitation for public comment (1:56:49)

David Stacy, Vice Chairman of Midland Firemen's Relief and Retirement Fund (Midland Fire), stated Midland Fire's initial Funding Soundness Restoration Plan (FSRP) was submitted October 2016, before Midland's amortization period was shown as infinite in December 2017. He stated that Midland Fire was now in the process of an actuarial valuation for 2019, as part of its over five-year span of improving the fiscal soundness of the plan based on requirements and recommendations from the Legislature and the PRB.

Mr. Stacy noted plans, including Midland Fire, lowered both their investment return assumption and payroll growth assumption, leading to an extended amortization period. He requested the Board consider plans currently engaged in the FSRP process when considering upcoming Legislative changes.

14. Adjournment (2:11:31)

Chair Leibe adjourned the meeting at 12:11 PM.

In Attendance:

PRB Staff Present

Westley Allen	Bryan Burnham
Kenny Herbold	James King
Michelle Downie Kranes	Anumeha Kumar
Mariah Miller	Robert Munter
Ashley Rendon	Lindsay Seymour
Benjamin Warden	



Chair Stephanie Leibe